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SIPDIS

DEPARTMENT FOR SCA/FO (JGASTRIGHT); SCA/CEN (JMUDGE)
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SENSITIVE

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SUBJECT: A/S BOUCHER AND ADB REPRESENTATIVE DISCUSS REGIONAL DEVELOPMENT

1. (SBU) Summary: In a May 4 meeting, Craig Steffensen of the Asian Development Bank (ADB) briefed A/S Boucher and NSC Senior Director Millard on the projects the ADB is working on in Central and South Asia. One of the problems for regional development and integration, according to Steffensen, is that cooperation between countries runs smoothly at the technical level where all sides often agree on the problems and solutions; however, agreements tend to collapse as they get elevated to senior levels. Moreover, Uzbekistan tends to be the weak link in regional cooperation as it drags its feet on projects, periodically cuts ties with neighbors, and fails to honor commitments. Steffensen stressed that he viewed a north-south transportation corridor as a key project to promoting regional integration and trade. End Summary.

2. (SBU) Meeting Participants: SCA A/S Richard Boucher, NSC Senior Director Elisabeth Millard, U.S. Ambassador John Ordway, USAID Director Chris Crowley, Political Officer Douglas Monk (notetaker), ADB Head of Central Asia Regional Economic Cooperation Unit Craig Steffensen.

Coordination

3. (SBU) In a May 4 meeting with the Head of the Central Asia Regional Economic Cooperation Unit of the ADB, Craig Steffensen, Assistant Secretary for South and Central Asian Affairs Richard Boucher related his impression that the goals of the ADB and the USG are similar in Central and South Asia. A/S Boucher stated that one of the goals for the U.S. is to get Afghanistan actively involved in both Central and South Asia.

4. (SBU) Steffensen commented that as in the case of the U.S. Department of State, the ADB has recently reorganized and created a Central and South Asia Department. His unit works on transportation, energy, and trade issues throughout Central and South Asia. They work closely with the IMF, European Bank, Islamic Bank, UNDP, World Bank, and others. He commented that the World Bank, which works many of the energy issues, is not fulfilling its responsibilities in the region.

ADB Projects

5. (SBU) Steffensen stated that the ADB has earmarked \$2.2 billion in loans over the next three years for projects in the region, more than one-half of which will go to Azerbaijan. He commented that Azerbaijan is the only country in the region that can afford the large loans. U.S. Ambassador Ordway added that Kazakhstan can also afford loans. Steffensen said Kazakhstan takes advice on projects from international institutions, but funds them on its own. This is leading to flagging interest on the part of the banks in developing projects with Kazakhstan.

6. (U) When asked about the problems ADB has with their projects, Steffensen responded that cooperation between countries goes smoothly at the technical level where all sides often agree on the problems and solutions; however, agreements tend to collapse as they get elevated to senior levels.

Transportation

7. (U) The major transportation project on which the ADB is working is the Almaty-Karachi road project, which will create a transportation corridor from Almaty to Karachi and the Arabian Sea. The corridor will connect Kazakhstan, Kyrgyzstan, Uzbekistan, Tajikistan, Afghanistan, and Pakistan. Steffensen commented that building through Uzbekistan will be difficult because of the political climate of the country, and thus plans are to first connect through Kyrgyzstan and Tajikistan. A key part of this corridor, which will open up Central Asia, will be the bridge that the U.S. is funding from Tajikistan to

Afghanistan. The Chinese are also helping fund this road.

18. (U) One of the problems with regional development in general, Steffensen stated, was the lack of a project that will unite all of the Central Asian countries. He stated his belief that a road from Russia, through Central Asia, to the Arabian Sea may be such a project. This project, however, has not yet received much attention.

Energy

19. (SBU) There are a number of problems in the electricity sector stemming both from a lack of lines to homes, as well as low generation. There is also a lack of political will to create regional power sharing agreements. Steffensen commented that the regional power trade agreement between Uzbekistan and Tajikistan was killed by Uzbek President Karimov because he was angry with Tajikistan over other issues. The ADB does little with gas and oil projects.

Trade

110. (U) Central Asia has an abundance of high quality fruits and vegetables, but they are traded inter-regionally instead of competing where they would have a strong competitive advantage, according to Steffensen. This is because of high transport costs and delays. If the region was able to overcome the transport problems and export their produce, this could reduce poverty and boost trade. Ambassador Ordway made the observation that transporting along the Russian rail line is expensive because there is not alternate route. When A/S Boucher asked what is needed for Central Asia to be able to export into China, Steffensen answered that China and Kazakhstan are currently funding the construction of a dual-track train line across the border.

Customs

111. (U) Steffensen stated that there is a lot of work that needs to be done on the customs front to ameliorate regional trade. The border crossing between Almaty and Bishkek runs relatively smoothly and quickly as long as truckers are in compliance with regulations. However, if a truck is overloaded, the driver is speeding, or is intoxicated, the police and border officials will try to impose heavy fines and create long delays. He commented that it is difficult to persuade the authorities to reduce tariffs and customs duties. The ADB and IMF are encouraging Central Asian states that it is in their best interest to join the WTO as soon as possible, and then work on joining customs unions.

112. (U) After a discussion about the abundance of Chinese goods in Central Asia, A/S Boucher suggested that if goods were coming into Central Asia from China, they ought to be able to flow in the other direction. He suggested that it appears the problems with trade are to a great extent regulatory.

Conclusion

113. (SBU) After A/S Boucher asked Steffensen what he would emphasize as the most important topics, Steffensen commented that he would stress the importance of a North-South connection and U.S. leadership in building transport corridors. He stated that there is currently too little trade between Central and South Asia, in large part because of a lack of roads and united power grids. The ADB's message to Central Asian countries is to cooperate or get left behind.

114. (SBU) A/S Boucher followed up by stating that the U.S. message is that we are serious about these topics. The U.S. will put money into feasibility studies and help on the planning and regulatory sides. The U.S. and the ADB should coordinate their efforts to push the same points with regional leaders.

115. (U) A/S Boucher cleared this message.